

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Missaukee County Road Commission	County Missaukee
Fiscal Year End December 31, 2006	Opinion Date April 23, 2007	Date Audit Report Submitted to State April 30, 2007	

We affirm that:

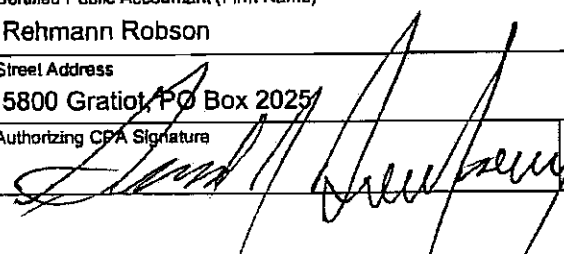
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                     | NO                       | Check each applicable box below. (See instructions for further detail.)   |
|---|--------------------------|---|
| 1. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.   |
| 2. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.   |
| 3. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has adopted a budget for all required funds.   |
| 5. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute.   |
| 6. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.   |
| 7. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years.  |
| 12. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED.   |
| 13. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| 14. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989-799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 	Printed Name Gerald J. Deslover, CPA	License Number 1101007126	



**Missaukee County Road Commission  
(A Component Unit of Missaukee County)**

**Lake City, Michigan**

**Financial Statements**

**For the Year Ended December 31, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

**MISSAUKEE COUNTY ROAD COMMISSION**  
**(A Component Unit of Missaukee County)**

**TABLE OF CONTENTS**

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	<u><b>Page</b></u>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-8
<b>Basic Financial Statements for the Year Ended December 31, 2006</b>	
Statement of Net Assets and General Fund Balance Sheet	9
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	10
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	11
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	13-14
Notes to Financial Statements	15-24
<b>Operating Fund Schedules</b>	
General Operating Fund – Schedule of Revenues by Component	25
General Operating Fund – Schedule of Expenditures by Component	26
General Operating Fund – Schedule of Changes in Fund Balance	27
<b>Internal Control and Compliance</b>	
<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</b>	28-31



# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

April 20, 2007

Members of County Road Commission  
County of Missaukee  
1199 N. Morey Road  
Lake City, MI 49651

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Missaukee County Road Commission**, a component unit of Missaukee County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Missaukee County Road Commission's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Missaukee County Road Commission** as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2007, on our consideration of the **Missaukee County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws,

regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Missaukee County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Johnson".

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Missaukee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Missaukee County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

### **Government-wide Statements**

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Road Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Missaukee County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Missaukee County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

**Fund financial statements.** A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 15 through 23 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

### Government-wide Financial Analysis

The Road Commission's Net assets increased approximately 10.7% or \$2,148,892 from \$20,036,658 to \$22,185,550 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

#### Missaukee County Road Commission Net Assets:

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 1,653,699	\$ 1,645,776	\$ 7,923	.5%
Capital assets	<u>20,904,055</u>	<u>18,733,048</u>	<u>2,171,007</u>	11.6%
Total assets	<u>22,557,754</u>	<u>20,378,824</u>	<u>2,178,930</u>	10.7%
Long-term liabilities outstanding	144,369	134,973	9,396	7.0%
Other liabilities	<u>227,835</u>	<u>207,193</u>	<u>20,642</u>	10.0%
Total liabilities	<u>372,204</u>	<u>342,166</u>	<u>30,038</u>	8.8%
Net assets:				
Invested in capital assets, net of related debt	20,904,055	18,733,048	2,171,007	11.6%
Unrestricted	<u>1,281,495</u>	<u>1,303,610</u>	<u>(22,115)</u>	-1.7%
Total net assets	<u>\$ 22,185,550</u>	<u>\$ 20,036,658</u>	<u>\$ 2,148,892</u>	10.7%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Missaukee County Road Commission, assets exceeded liabilities by \$22,185,550 at the close of the most recent fiscal year.

By far the largest portion of the Missaukee County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. Although the



Missaukee County Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

### **Governmental Activities**

A summary of changes in net assets for the years ended December 31, 2006 and 2005, follows:

	<u>December 31 2006</u>	<u>December 31 2005</u>
Program revenue		
Charges for services	\$ 992,436	\$ 1,113,680
Operating grants and contributions		
State transportation funds	2,928,079	2,957,710
Capital grants and contributions		
Federal and state sources	2,682,564	70,994
General revenue		
Interest and rents	38,695	28,076
Gain on equipment disposal	<u>140,459</u>	<u>26,842</u>
Total revenue	6,782,233	4,197,302
Expenses		
Public Works	<u>4,633,341</u>	<u>4,755,079</u>
Increase (decrease) in net assets	<u>\$ 2,148,892</u>	<u>\$ (557,777)</u>

Governmental activities increased the Missaukee County Road Commission's net assets by \$2,148,892. The key elements of this increase are as follows:

- There was an increase in availability of federal and state revenues. Federal and state sources increased 196%.
- There was a large gain on equipment disposal.

### **General Fund Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue and expense budget for 2006 was unchanged from the original budget.

## Capital Assets and Debt Administration

As of December 31, 2005, the Missaukee County Road Commission had invested \$20,904,155 in capital assets. This amount represents a net increase (including additions and deductions) of \$2,171,107 for 11.6% as follows:

	<u>2006</u>	<u>2005</u>	<u>Total Percentage Change 2006/2005</u>
Capital assets being depreciated			
Land	<u>\$ 650</u>	<u>\$ 650</u>	0.00%
Capital assets being depreciated			
Land improvements	100,364	100,364	0.00%
Buildings	1,291,094	1,291,094	0.49%
Equipment	4,310,803	4,263,629	1.11%
Infrastructure	<u>34,771,328</u>	<u>30,863,131</u>	12.66%
Subtotal	<u>40,473,589</u>	<u>36,518,218</u>	10.83%
 Total capital assets	 40,474,239	 36,518,868	 10.83%
Total accumulated depreciation	<u>(19,570,084)</u>	<u>(17,785,820)</u>	<u>10.03%</u>
 Total net capital assets	 <u>\$ 20,904,155</u>	 <u>\$ 18,733,048</u>	 11.59%

Major capital asset events during the current fiscal year included the following:

Reconstruction of bridges	\$ 589,147
Various resurfacing of roads	3,319,050
Building additions and equipment	<u>279,829</u>
 Total Additions	 <u>\$ 4,188,026</u>

Additional information on the Road Commission's capital assets can be found in note III.B. on page 21.

## Long-term debt

Other obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note I.D.5 to the financial statements.

## Economic Factors and Next Year's Budgets and Rates

No significant factors influenced our preparation of the 2007 Road Commission budget.

### **Requests for Information**

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Director, Missaukee County Road Commission, 1199 N. Morey Rd., Lake City, Michigan 49651.

## **BASIC FINANCIAL STATEMENTS**

**MISSAUKEE COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET**  
**DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash	\$ 505,788	\$ -	\$ 505,788
Accounts receivable			
Michigan transportation fund	426,898	-	426,898
State trunkline maintenance	52,711	-	52,711
Due from other governments	817	-	817
Due on county road agreements	369,890	-	369,890
Sundry accounts receivable	2,386	-	2,386
Inventories			
Equipment material and parts	157,391	-	157,391
Road materials	93,610	-	93,610
Prepaid insurance	44,208	-	44,208
Capital assets			
Land and improvements	-	49,551	49,551
Property and equipment - net of accumulated depreciation	-	1,544,335	1,544,335
Infrastructure - net of accumulated depreciation	-	19,310,169	19,310,169
<b>Total assets</b>	<u><u>\$ 1,653,699</u></u>	<u><u>20,904,055</u></u>	<u><u>22,557,754</u></u>
<b>LIABILITIES</b>			
Accounts payable	\$ 93,322	-	\$ 93,322
Accrued liabilities	18,072	-	18,072
Advances			
State trunkline equipment purchase	77,308	-	77,308
State trunkline maintenance	39,133	-	39,133
Long-term liabilities			
Due within one year	-	14,437	14,437
Due after one year	-	129,932	129,932
<b>Total liabilities</b>	<u><u>227,835</u></u>	<u><u>144,369</u></u>	<u><u>372,204</u></u>
<b>Fund Balance/Net Assets</b>			
Fund balance			
Reserved for inventory	251,001	-	251,001
Reserved for prepaid insurance	44,208	-	44,208
Unreserved, undesignated	1,130,655	-	1,130,655
<b>Total fund balance</b>	<u><u>1,425,864</u></u>	<u><u>-</u></u>	<u><u>1,425,864</u></u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 1,653,699</u></u>		
<b>Net Assets:</b>			
Investment in capital assets, net of related debt		20,904,055	20,904,055
Unrestricted		1,281,495	1,281,495
<b>Total net assets</b>		<u><u>\$ 22,185,550</u></u>	<u><u>\$ 22,185,550</u></u>

The accompanying notes are an integral part of these financial statements.

**MISSAUKEE COUNTY ROAD COMMISSION  
RECONCILIATION OF GENERAL FUND BALANCE SHEET  
TO STATEMENT OF NET ASSETS**

**DECEMBER 31, 2006**

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Fund balances - General Fund	\$ 1,425,864
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - land and land improvements	101,014
Add - property and equipment	5,601,797
Add - infrastructure	34,771,328
Deduct - accumulated depreciation	(19,570,084)
Long-term accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(144,369)</u>
Net assets of governmental activities	<u><u>\$ 22,185,550</u></u>

The accompanying notes are an integral part of these financial statements.

# MISSAUKEE COUNTY ROAD COMMISSION

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Expenditures/expenses</b>			
Public works	\$ 2,607,027	\$ 1,936,120	\$ 4,543,147
Capital outlay	4,187,925	(4,187,925)	-
Total expenditures/expenses	<u>6,794,952</u>	<u>(2,251,805)</u>	<u>4,543,147</u>
<b>Program revenue</b>			
Charges for services	992,436	-	992,436
<b>Operating grants and contributions</b>			
State transportation funds	2,928,079	-	2,928,079
<b>Capital grants and contributions</b>			
Federal and state sources	<u>2,682,564</u>	<u>-</u>	<u>2,682,564</u>
Total program revenues	<u>6,603,079</u>	<u>-</u>	<u>6,603,079</u>
Net program revenue			<u>2,059,932</u>
<b>General revenue</b>			
Interest and rents	38,695	-	38,695
Gain on sale of assets	<u>140,459</u>	<u>(90,194)</u>	<u>50,265</u>
Total general revenue and special items	<u>179,154</u>	<u>(90,194)</u>	<u>88,960</u>
Total revenue	<u>6,782,233</u>		
Revenue and special items over (under) expenditures	(12,719)	12,719	-
Changes in net assets	-	2,148,892	2,148,892
Fund balance/net assets:			
Beginning of the year	<u>1,438,583</u>	<u>18,598,075</u>	<u>20,036,658</u>
End of the year	<u>\$ 1,425,864</u>	<u>\$ 20,759,686</u>	<u>\$ 22,185,550</u>

The accompanying notes are an integral part of these financial statements.

**MISSAUKEE COUNTY ROAD COMMISSION**  
**RECONCILIATION OF THE GENERAL FUND REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

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Revenues over (under) expenditures - General Fund	\$ (12,719)
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Amounts reported for *governmental activities* in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense.

Add - capital outlay	279,728
Add - Infrastructure purchases	3,908,197
Deduct - depreciation expense	(1,926,724)

The loss on disposal of capital assets is reported as an expense in the statement  
of activities but does not require the use of current financial resources and  
therefore is not reported as an expenditure in the General Fund. (90,194)

The change in the accrued compensated absences is reported as an expense in the  
statement of activities but does not require the use of current financial resources  
and therefore is not reported as an expenditure in the General Fund. (9,396)

Change in net assets of governmental activities	<u><u>\$ 2,148,892</u></u>
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The accompanying notes are an integral part of these financial statements.



# MISSAUKEE COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
<b>Permits and licences</b>	\$ -	\$ -	\$ 5,175	\$ 5,175
<b>Federal sources</b>				
Surface transportation funds	1,200,000	1,200,000	1,239,001	39,001
Equity bonus funds used as TED (category D)	800,000	800,000	785,601	(14,399)
Critical bridge	-	-	365,590	365,590
<b>State sources</b>				
Category A	200,000	200,000	157,120	(42,880)
Category D	90,000	90,000	-	(90,000)
Critical bridge	-	-	68,548	68,548
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Allocation	3,000,000	3,000,000	2,875,971	(124,029)
Snow funds	40,000	40,000	42,108	2,108
Economic development funds				
Forest Road (E)	67,000	67,000	66,704	(296)
<b>Contributions</b>				
Townships	514,250	514,250	570,737	56,487
<b>Charges for services</b>				
State trunkline maintenance	438,300	438,300	399,699	(38,601)
Salvage sales	-	-	2,358	2,358
Other	-	-	817	817
<b>Interest and rentals</b>	20,000	20,000	38,695	18,695
<b>Other revenue</b>				
Miscellaneous	25,000	25,000	13,650	(11,350)
Proceeds from sale of property and equipment	-	-	140,459	140,459
<b>Total revenue</b>	<u>6,404,550</u>	<u>6,404,550</u>	<u>6,782,233</u>	<u>377,683</u>

The accompanying notes are an integral part of these financial statements.

# MISSAUKEE COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>				
<b>Primary Road</b>				
Heavy maintenance	\$ 3,113,095	\$ 3,113,095	\$ 2,792,729	\$ 320,366
Maintenance	806,253	806,253	786,118	20,135
<b>Local Road</b>				
Heavy maintenance	735,315	735,315	1,115,468	(380,153)
Maintenance	<u>1,365,745</u>	<u>1,365,745</u>	<u>1,362,312</u>	<u>3,433</u>
<b>Total maintenance</b>	6,020,408	6,020,408	6,056,627	(36,219)
<b>State trunkline maintenance</b>	438,300	438,300	399,699	38,601
<b>Equipment expense (net)</b>	(302,497)	(302,497)	168,649	(471,146)
<b>Administrative expense (net)</b>	162,000	162,000	275,914	(113,914)
<b>Capital outlay (net)</b>	<u>85,000</u>	<u>85,000</u>	<u>(105,937)</u>	<u>190,937</u>
<b>Total expenditures</b>	<u>6,403,211</u>	<u>6,403,211</u>	<u>6,794,952</u>	<u>(391,741)</u>
<b>Net change in fund balance</b>	1,339	1,339	(12,719)	(14,058)
<b>Fund balances, beginning of year</b>	<u>1,438,583</u>	<u>1,438,583</u>	<u>1,438,583</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 1,439,922</u>	<u>\$ 1,439,922</u>	<u>\$ 1,425,864</u>	<u>\$ (14,058)</u>

The accompanying notes are an integral part of these financial statements.

# MISSAUKEE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Missaukee County Road Commission (the "Commission") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### A. Reporting Entity

The *Missaukee County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Missaukee, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

# MISSAUKEE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes.

### **C. Measurement Focus Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

# **MISSAUKEE COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **D. Assets, Liabilities, and Net Assets or Equity**

#### **1. Deposits**

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

#### **2. Inventory**

Inventory, consisting of various operating parts, supplies and road material, is determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

#### **3. Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$200 and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

GASB Statement Number 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement Number 34. The Road Commission has capitalized the current year's infrastructure, as required by GASB Statement Number 34, and has reported the infrastructure assets on the statement of net assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

# MISSAUKEE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Land improvements	20 years
Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – roads	20 years
Infrastructure – bridges	50 years

#### 4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. Management estimates each year for the anticipated back charges but the final amount of adjustments, if any, for the years ended December 31, 2003 through 2006, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount from the estimated accrual.

#### 5. Compensated Absences

The total accumulated unpaid vacation and sick pay liability of the Missaukee County Road Commission at December 31, 2006 was \$144,369. Of this amount, \$129,932 was determined to be a long-term liability and is therefore reflected as a non-current liability on the government-wide statements, with the remaining balance being reported as due within one year. A current liability for these amounts is only reported in the governmental funds for known terminations as of year-end.

# MISSAUKEE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

County Road employees earn vacation leave in varying amounts depending on the number of years of service. Accumulated vacation may not exceed the total earned for any given year per the union contract. Non-union employees are also subject to the vacation provisions in the union contract. Unpaid vacation leave at December 31, 2006, amounted to \$70,470.

Sick leave is accumulated at the rate of one day for each month of service with accumulation not to exceed 640 hours. The policy also provides that employees, who are separate from employment with the Road Commission, will be paid ½ of their accumulated sick leave. Unpaid sick leave at December 31, 2006, was \$73,899.

Compensated absences liability activity for the year ended December 31, 2006 was as follows:

	<u>Balance January 1, 2006</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance December 31, 2006</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 134,973</u>	<u>\$ 26,171</u>	<u>\$ (16,775)</u>	<u>\$ 144,369</u>	<u>\$ 14,437</u>

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Data

The budgetary data presented in the financial statements of the Road Commission are in accordance with the Uniform Budgeting and Accounting Act (Act 621, Public Acts of 1978), as prescribed by the State of Michigan.

The Road Commission follows these procedures in establishing the budget as reflected in these financial statements:

1. In December the clerk-finance director submits, to the Commission, a proposed operating budget for the year commencing on January 1.
2. Prior to December 31, the budget is legally enacted through passage of a resolution.

# MISSAUKEE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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3. For purposes of meeting emergency needs of the Road Commission, a transfer of appropriations may be made by the authorization of the clerk. Such transfers of appropriations must be approved by the Commission at its next regularly scheduled meeting.
4. The Clerk is charged with general supervision of the budget.
5. During the year the budget is monitored and amendments to the budget resolution are made as deemed necessary.
6. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

### DETAILED NOTES ON ALL FUNDS

#### A. Deposits

At year-end, the carrying amounts and bank balance of the Commission's deposits were as follows:

	<b>Cash and Cash Equivalents</b>
Cash on hand	\$ 100
Other demand accounts	503,173
Cash on deposit with Missaukee County internal cash management pool	<u>2,515</u>
	<u><b>\$ 505,788</b></u>

This entire balance is considered to be deposits for disclosure purposes.

#### Deposit and investment risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States



# MISSAUKEE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

The Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Commission had no investments and was therefore, not exposed to credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, The Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. At year-end, \$364,804 of the Commission's bank balance of \$564,804 was exposed to custodial credit risk because it was uninsured and uncollateralized. FDIC coverage cannot be determined for deposits with the County.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Commission had no investments and was therefore, not exposed to credit risk.

# **MISSAUKEE COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

### **B. Capital Assets**

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2006</u>
Capital assets not being depreciated				
Land	\$ 650	\$ -	\$ -	\$ 650
Capital assets being depreciated				
Land improvements	100,364	-	-	100,364
Buildings	1,291,094	-	-	1,291,094
Road equipment	4,133,626	279,828	(232,654)	4,180,800
Shop equipment	99,842	-	-	99,842
Office equipment	30,161	-	-	30,161
Infrastructure – roads	27,830,945	3,319,050	-	31,149,995
Infrastructure – bridges	<u>3,032,186</u>	<u>589,147</u>	<u>-</u>	<u>3,621,333</u>
Total capital assets being depreciated	<u>36,518,218</u>	<u>4,188,025</u>	<u>(232,654)</u>	<u>40,473,589</u>
Less accumulated depreciation				
Land improvements	(46,792)	(4,671)	-	(51,463)
Buildings	(392,322)	(27,231)	-	(419,553)
Road equipment	(3,330,789)	(343,142)	142,460	(3,531,471)
Shop equipment	(59,364)	(7,794)	-	(67,158)
Office equipment	(36,453)	(2,827)	-	(39,280)
Infrastructure – roads	(13,164,038)	(1,474,524)	-	(14,638,562)
Infrastructure – bridges	<u>(756,062)</u>	<u>(66,535)</u>	<u>-</u>	<u>(822,597)</u>
Total accumulated depreciation	<u>(17,785,820)</u>	<u>(1,926,724)</u>	<u>142,460</u>	<u>(19,570,084)</u>
Net capital assets being depreciated	<u>18,732,398</u>	<u>2,261,301</u>	<u>(90,194)</u>	<u>20,903,505</u>
Total net capital assets	<u>\$18,733,048</u>	<u>\$ 2,261,301</u>	<u>\$ (90,194)</u>	<u>\$ 20,904,155</u>

# **MISSAUKEE COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **III. OTHER INFORMATION**

#### **A. Defined Contribution Pension Plan**

The Missaukee County Road Commission Money Purchase Pension Plan, a single-employer plan, covers substantially all of its full-time employees. The employer contributes 10% of covered payroll. No employee contributions are allowed. The Plan is administered by a seven member committee comprised of three Road Commissioners, the Road Commission Manager and three employees elected by the Missaukee County Road Commission Employees' Association.

Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners.

The Road Commission's contributions for the year amounted to \$98,548 (10% of covered payroll). The contributions are invested in the Public Employers Retirement Trust / Michigan.

Distributions from the plan will be made upon termination of employment or upon retirement, on or after normal retirement age of 62.

#### **B. Post Employment Benefits**

The Road Commission provides post employment hospitalization insurance coverage to its retired full-time employees who were hired before 1984.

The Road Commission funds 100% of the premiums of the policies on a pay-as-you-go basis. During 2006, the Road Commission paid deductibles and hospitalization premiums for 15 qualified individuals totaling \$122,170.

#### **C. Self-Insurance Pool**

The Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

# MISSAUKEE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **D. Federal Award Expenditures / Single Audit**

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County.

During the year ended December 31, 2006, the Road Commission recorded expenditures of federal awards in the amount of \$2,615,861. The entire amount of these expenditures represent Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of these projects being performed at the State level, these expenditures will be included in the single audit procedures of the State. No federal awards expenditures were administered by the Missaukee County Road Commission; therefore a single audit for the Road Commission is not required.

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## **OPERATING FUND SCHEDULES**

# **MISSAUKEE COUNTY ROAD COMMISSION**

## **GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Revenues</b>				
Permits and licenses	\$ -	\$ -	\$ 5,175	\$ 5,175
Federal sources				
Surface transportation funds	1,204,287	34,714	-	1,239,001
Equity bonus funds used as TED (category D)	785,601	-	-	785,601
Critical bridge	-	365,590	-	365,590
State sources				
Category A	157,120	-	-	157,120
Critical bridge	-	68,548	-	68,548
Michigan transportation funds				
Engineering	5,800	4,200	-	10,000
Allocation	1,692,211	1,183,760	-	2,875,971
Snow funds	42,108	-	-	42,108
Economic development funds				
Forest road (E funds)	66,704	-	-	66,704
Contributions from local units				
Townships	-	539,673	-	539,673
Township maintenance bills	-	31,064	-	31,064
Charges for services				
State trunkline maintenance	-	-	399,699	399,699
Salvage sales	-	-	2,358	2,358
Other-drain	-	-	817	817
Property rentals	-	-	362	362
Other				
Interest earned			38,333	38,333
Miscellaneous	-	-	13,650	13,650
Proceeds from sale of property and equipment	-	-	140,459	140,459
<b>Total revenues</b>	<u>\$ 3,953,831</u>	<u>\$ 2,227,549</u>	<u>\$ 600,853</u>	<u>\$ 6,782,233</u>

# **MISSAUKEE COUNTY ROAD COMMISSION**

## **GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Expenditures</b>				
Heavy maintenance				
Roads	\$ 2,713,483	\$ 568,456	\$ -	\$ 3,281,939
Structures	52,072	537,075	-	589,147
Safety projects	27,174	2,970	-	30,144
Drain improvements	-	6,967	-	6,967
Maintenance				
Roads	509,466	1,121,817	-	1,631,283
Winter maintenance	264,741	223,143	-	487,884
Traffic control	11,911	17,352	-	29,263
Total maintenance and construction	3,578,847	2,477,780	-	6,056,627
State trunkline maintenance	-	-	399,699	399,699
Equipment expense (net)	37,710	106,316	24,623	168,649
Administrative expense (net)	114,810	161,104	-	275,914
Capital outlay (net)	-	-	(105,937)	(105,937)
<b>Total expenditures</b>	<u>\$ 3,731,367</u>	<u>\$ 2,745,200</u>	<u>\$ 318,385</u>	<u>\$ 6,794,952</u>

# MISSAUKEE COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 3,953,831	\$ 2,227,549	\$ 600,853	\$ 6,782,233
Total expenditures	<u>3,731,367</u>	<u>2,745,200</u>	<u>318,385</u>	<u>6,794,952</u>
Revenues over (under) expenditures	222,464	(517,651)	282,468	(12,719)
Other financing sources (uses)				
Intrafund transfers	<u>(507,663)</u>	<u>507,663</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other (uses)	(285,199)	(9,988)	282,468	(12,719)
Fund balance, beginning of year	<u>598,198</u>	<u>84,897</u>	<u>755,488</u>	<u>1,438,583</u>
Fund balance, end of year	<u>\$ 312,999</u>	<u>\$ 74,909</u>	<u>\$ 1,037,956</u>	<u>\$ 1,425,864</u>



## **INTERNAL CONTROL AND COMPLIANCE**



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH  
GOVERNMENT AUDITING STANDARDS**

April 20, 2007

Members of the Board of County  
Road Commissioners  
County of Missaukee  
Lake City, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Missaukee County Road Commission, a component unit of Missaukee County, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements and have issued our report thereon dated April 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Missaukee County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Missaukee County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Missaukee County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's

financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

## **Finding 2006-1 – Preparation of Financial Statements in Accordance with GAAP**

- Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
- Condition:** As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.
- Cause:** This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
- Effect:** As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
- View of Responsible Officials:** The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Missaukee County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Missaukee County Road Commission in a separate letter dated April 20, 2007.

Missaukee County Road Commission's responses to the findings identified in our audit are described above. We did not audit Missaukee County Road Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the board members, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, looped initial 'L'.